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SUBJECT: PERU'S TRADE AGENDA: REACHING ACROSS THE GLOBE

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SUMMARY

11. (U) In 2008, Peru made significant strides towards diversifying its trading partnerships. Peru signed trade agreements with Canada and Singapore and concluded negotiations with the European Free Trade Association (EFTA). Visits by leaders participating in the European Union - Latin American and Caribbean Summit (EU-LAC) and the Asia Pacific Economic Cooperation (APEC) meetings jump-started stalled action on agreements with Thailand, Chile, Mexico, and the European Union (EU). In all four cases, Peru's leaders remain hopeful that the agreements will enter into force in 2009. Peru advanced on trade agreements with Japan and China during Peruvian President Alan Garcia's visit in the early part of 2008. Initial discussions led to quick action, including an announcement during the APEC meetings of the start of trade negotiations with South Korea. Peru continues to seek agreements reaching across the globe to Europe, Asia, and Africa.

CANADA - FTA DESIGNED TO PROMOTE ECONOMIC GROWTH

12. (U) On May 31, 1999, the countries of the Andean Community (Bolivia, Colombia, Ecuador, Peru, and Venezuela) signed a Trade and Investment Cooperation Agreement (TICA) with the Government of Canada. On August 7, 2002, the Government of Canada announced its intentions to begin preliminary talks with the members of the Andean Community on a possible Free Trade Agreement (FTA). Subsequently, Canada, Colombia, and Peru announced the launch of bilateral negotiations on June 7, 2007. On January 26, 2008, after three rounds of negotiations Canada and Peru concluded their agreement. On May 29, 2008, during APEC meetings held in Peru, the two countries signed an FTA. The FTA will likely enter into force in early 2009. Upon entry-into-force, Peru will remove tariffs on 95 percent of Canadian exports. Peru will remove tariffs on the remainder over a five to ten year period. Canada will immediately remove tariffs on 97 percent of Peruvian imports and will phase out the rest over a three to seven year period. Peru and Canada also signed cooperation agreements on labor and the environment. Two-way commerce between Peru and Canada totaled \$2.45 billion in 2007. Peru primarily imports cereals, leguminous vegetables, paper, technical instruments and machinery and exports gold, zinc, copper, ores, oil, animal feed and vegetables from Canada.

13. (U) The Peru FTA represents Canada's fourth free trade agreement in the Americas. The agreement will benefit the mining, energy, manufacturing, agricultural, and professional services sectors. The agreement encourages and protects Canadian investment in Peru with greater stability and transparency for investors. The accumulated stock of Canadian investment in Peru is approximately \$1.8 billion. Canada will grant Peruvian businesses improved market access to their market which will support further economic growth and poverty reduction in Peru. For the first time in a Canadian FTA, Canada will support Peru with trade-capacity building.

SINGAPORE - HUB TO ASIA

14. (U) Peru began negotiations with Singapore in 2004 during the APEC Leader's Week in Santiago, Chile. The first of four rounds of negotiations took place two years later in Singapore. On August 27, 2007, Peru and Singapore concluded their bilateral negotiations. They signed the agreement on May 30, 2008, during APEC meetings held in Peru. The agreement will likely enter into force in 2009. Parties consider this to be a broad based and comprehensive agreement. Immediately upon entry into force, over 87 percent of Singapore's exports to Peru will benefit from duty-free treatment, with the remaining tariffs to be phased out over a ten year period. All Peruvian exports will be given instant tariff-free status to Singapore. Peru primarily imports electronics and exports minerals and copper wire to Singapore.

15. (U) Upon the signing of the agreement, President Garcia remarked that the agreement will test the capacity and ability of Peruvian industry to export its diverse products

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to the Asian market. Singapore controls one of the central ports for products entering the region. Peru hopes that this agreement facilitates the entry of Peruvian products to the whole of Asia. In return, Peru hopes to serve as a port of entry for Asian products to South America.

EFTA - MACHINERY AND DRUGS FOR FISH PRODUCTS AND ZINC

16. (U) On April 24, 2006, Peru and the European Free Trade Association (EFTA -- Sweden, Norway, Iceland, and Liechtenstein) signed a Declaration on Cooperation. The Declaration's objectives were to enhance economic relations and to establish a framework for the expansion, diversification, and liberalization of trade and investment. On June 4, 2007, Peru and the EFTA States announced their decision to launch free trade negotiations. Peru and the EFTA States held three rounds of negotiations with negotiations formally concluding on October 31, 2008. Peru will eliminate tariffs on trade with EFTA States. Peru imports from the EFTA States machinery, pharmaceuticals, and instruments. Peru exports to the EFTA States fish waste, fats and oils and zinc.

THAILAND - GATEWAY TO ASEAN

17. (U) Peru and Thailand initiated talks towards expanding trade relations in July 2002. In October 2002, Peru and Thailand agreed to set out a framework agreement for a bilateral free trade agreement. On October 17, 2003, Peru and Thailand signed a Framework Agreement on Economic Cooperation initiating negotiations for a free trade agreement. The Peruvian Congress ratified the agreement on December 3, 2004, and promulgated it on December 23, 2004. The Government of Thailand ratified the agreement on October 18, 2005. After seven rounds of negotiations, on November 19, 2005, the parties signed a protocol to accelerate the liberalization in trade in goods and trade facilitation. They signed an additional protocol in November 2006. Between 2006 and 2008, progress on the agreement stalled. Then, during the APEC meetings held in November 2008, the leaders

announced that the agreement will likely enter into force in 2009.

18. (U) Thailand hopes to count on Peru as a gateway for trade in South America. In return, Peru hopes to rely on Thailand as a gateway for trade with the Association of Southeast Asian Nations (ASEAN). Thailand enjoyed a trade surplus with Peru in 2005 and 2007. The trade agreement is expected to increase trade by approximately 35 percent. Key imports from Thailand include vehicles and parts, plastic pellets, washing machines, refrigerators, rubber products, and rice. Peru exports to Thailand include zinc, copper, and fish meal.

CHILE - BUILDING A STRONGER ECONOMIC PARTNERSHIP

19. (U) Chile and Peru signed a free trade agreement on August 22, 2006. This agreement replaced the text, annexes, and protocols of Economic Complementation Agreement (ACE) No. 38 (registered with the Latin American Integration Association as AAP.CE.No.38), which the Parties signed on June 22, 1998, and which entered into force on July 1, 1998. In 2004, Chile and Peru initiated talks to renegotiate this agreement with a view to deepening their trade relations. On February 17 2005, the Second Protocol to ACE No. 38 provided for the shortening of the tariff reduction period originally set out in the agreement. Action on the agreement stalled over a maritime border dispute between Chile and Peru. In early 2008, the Chilean Congress removed the agreement from its "fast track" procedures. The Chilean Congress ultimately passed the agreement in December 2008 and January 2009. Subsequently, during a meeting with Chilean President Michelle Bachelet and Peruvian business leaders, participants announced that the agreement would likely enter into force March 1, 2009.

110. (U) Peru is the primary destination for Chilean foreign investment. The agreement seeks to promote equal development and harmony between the two countries by intensifying and expanding the economic and commercial relationship through product diversification, protection of migrant workers

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(primarily a Peruvian issue), and building joint venture partnerships to enter more competitively into the Asian market.

MEXICO - HOPE AN AGREEMENT WILL BE REACHED

111. (U) Peru and Mexico share an Economic Complementation Agreement (ACE No. 8). The expiration date for the agreement has been extended numerous times as a result of stalled negotiations over a free trade agreement. Agricultural issues remain the primary reason for the failure of the two countries to reach a free trade agreement. During his visit to Peru in November 2008 for the APEC Leader's Week, Mexican President Felipe Calderon remarked that the two countries will likely reach an agreement in early 2009.

EUROPEAN UNION - AGREES TO BILATERAL NEGOTIATIONS

112. (U) In June 2008, the European Union (EU) decided to suspend the fourth round of negotiations with the Andean Community (CAN). In October 2008, due to differences in negotiating speed with Ecuador and Bolivia, the EU announced it would pursue bilateral negotiations with Peru and Colombia. However, the EU still anticipates a bloc to bloc agreement in the future. Representatives from the EU and Peru anticipate the conclusion of negotiations by June 2009. The sides plan three, possibly four, rounds of negotiations for the first half of 2009. Exports from the Andean Community bloc to the EU totaled \$1.1 billion in 2007, mostly consisting of raw materials and farm goods.

CHINA - PERU'S NO. 2 TRADING PARTNER

113. (U) In March 2008, President Garcia traveled to China and

Japan to discuss the possibility for free trade negotiations.

During the China visit, President Garcia signed a Convention on Economic and Technical Cooperation, a Memorandum of Intention for the Promotion and Development of Investments in Minerals, Hydrocarbons, and Electricity, and an Agreement on Judicial Cooperation in Civil and Commercial Areas. The initiation of negotiations for a comprehensive trade agreement between Peru and China followed the visit. In May 2008, the Peruvian Minister of Foreign Trade and Tourism, Mercedes Araoz, announced that she thought Peru might be able to complete negotiations with China for a comprehensive free trade agreement by the APEC Leader's Week in November 2008. On November 20, 2008, President Garcia and Chinese President Hu Jintao, announced the conclusion of negotiations.

¶14. (U) Upon entry into force, 61.2 percent of Peruvian products will enter China duty-free. Remaining tariffs will decrease over a five year period. These products include asparagus, paprika, broccoli, dried fruit, palm, pork, and fish products. Minerals represent the largest export to China by far. Peru negotiated equal terms on tariff reductions as those negotiated by Chile with China. For example, the tariff rate for grape imports to China currently stands at 13 percent. Chile negotiated a reduction for grape tariff rates over time. Over the last four years, the tariff rate for Chilean grapes has decreased to 7.8 percent, and ultimately the rate will be zero. Peru negotiated a decreasing tariff rate starting at the current Chilean rate of 7.8 percent. Therefore, Peru will be competitive with the Chilean products rather than at a disadvantage. Peru secured a Customs Cooperation Agreement with China as well. The legal review will likely take four to five months. Peru anticipates the agreement entering into force in October 2009.

JAPAN - PARTNER FOR DEVELOPMENT

¶15. (U) While in Japan, President Garcia met with the Emperor and the Prime Minister to discuss the possibility of starting negotiations for investment and free trade agreements. In December 2008, work on a feasibility study began. Work on the study should finish in February 2009, in time for an announcement of the start of negotiations during President Garcia's visit to Tokyo for the Peru-Japan trade show. The agreement will include a Cooperation Agreement for Sustainable Development.

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KOREA - PERU CONTINUES EXPANSION TO ASIAN MARKET

¶16. (U) On November 21, 2008, President Garcia announced the initiation of negotiations for a free trade agreement with South Korea. This past year South Korea donated a new hospital and health centers in Piura, Peru, as well as 100 vehicles for security purposes in Lima.

PERU SETS SIGHTS ON FUTURE NEGOTIATIONS

¶17. (U) Peru has just started its push to open its market place to the global economy. Over the last year, the Vice-Minister for Foreign Trade and Tourism announced plans to pursue a trade agreement with Central America in 2009, as well as agreements with Russia, Morocco, India, South Africa, New Zealand, and Australia in the coming years.

COMMENT

¶18. (SBU) The Government of Peru took full advantage of its position as hosts to the European Union - Latin American and Caribbean Summit (EU-LAC) and Asia Pacific Economic Cooperation (APEC) meetings to promote its openness to negotiating new agreements and concluding pending ones. The United States has been Peru's number one trading partner for decades. However, Peru has taken strides to diversify its marketplace and become less dependent on the United States

market. Between 2007 and 2008, Peruvian exports to China increased 23.2 percent and to the European Union 9.9 percent, while the increase in exports to the United States was 7.3 percent. With regard to Peruvian imports, between 2006 and 2007, China surpassed Brazil to take the number two position behind the United States. In 2008, Chinese imports to Peru increased 64.2 percent from the previous year. U.S. imports increased 54.8 percent. Other notable increases for Peruvian imports include a 53.9 percent increase from APEC economies, 61.3 percent from Japan, and 53.6 percent from the European Union. Peru has a vigorous trade agenda for 2009 and 2010. Based on its accomplishments in concluding agreements with United States and China, among others, it appears that Peru will fulfill this agenda and continue to make strides in its quest for trade diversification.

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